

The Effect of Local Original Income (PAD), Transfer Funds (Balanced Funds), and Regional Economic Growth on the Regional Poverty Rate of West Nusa Tenggara Province (NTB)



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ABSTRACT: One of the primary goals of any municipality is human development when it comes to regional development. Reducing poverty and improving community welfare and human resources are the primary goals. The poverty rate in NTB Province has dropped dramatically, and the income and economic growth in the area have increased, thanks to the many regional development initiatives that the province has launched. Finding out how local original income, balancing funds, and economic development influence the poverty rate in NTB province is the main objective of this research. Using a battery of tests and regression analysis, we compile a dataset consisting of panel data from ten NTB Province regencies and cities covering the years 2012–2022. The results obtained from this study show that local original funding (PAD) has a significant impact on reducing poverty rates and balancing funds that significantly reduce poverty rates in the NTB province. However, economic growth impacts increasing the poverty rate in NTB province, although not significantly. This may happen because Indonesia's economic growth fluctuates, thus affecting the increase in poverty. Fluctuations occur due to factors such as national economic conditions, supply-demand, government policies, etc. This can affect the economic growth of NTB, and it also impacts the increasing poverty rate in NTB. In addition, the increasing population is one of the factors that contribute to economic fluctuations and the increase of poor people in NTB.

KEYWORDS: Regional Development, Local Original Revenue (PAD), Balancing Fund, Economic Growth, Poverty

INTRODUCTION

Regional development is one of the government's focuses, not only in infrastructure development but in human development itself. In its implementation, local governments have full authority over regional development. This follows Law Number 22 of 1999 and Law Number 32 of 2004 concerning regional decentralization by regional governments and conducting regional autonomy for regional governments to regulate all regional financial and development policies.

An important part of decentralization programs is Regional Original Revenue (PAD), which is an instrument of local government power for running and funding regional autonomous operations. Various valid sources of local original income, including taxes, regional levies, and money from the administration of segregated regional resources, contribute to PAD. To measure their success, local governments use these revenue streams as a baseline for their Local Original Revenue.

The balance fund, often known as the transfer fund, is an additional source of regional income alongside regional original revenue (PAD). With its roots in the state budget, the balancing fund seeks to maintain fiscal parity between the federal and state levels of government while also facilitating the exercise of regional autonomy by the states in the financing of their own programs and initiatives. While both the equalization fund and Regional Original income (PAD) aim to finance regional autonomy operations, their respective income sources are different. The appropriate distribution of PAD and Balancing Funds throughout the regions will have an effect on economic development in those areas.

Research and data related to economic growth are needed to determine the state of economic growth. With sustainable economic growth, the picture and performance of national and local governments can be indicators for improving public welfare. If economic growth increases, it is likely to affect the regional economic capacity (GRDP). If GDP increases, it will equal economic welfare distribution (Trickle Down Effect). In the efforts of the national government to improve welfare for the community by

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providing decent employment to improve economic performance, the government implements national development. One of the strategic objectives to implement this national development is to reduce the number and percentage of poverty rates.

LITERATURE REVIEW

A. Local Original Revenue (PAD)

According to Law No. 33 of 2004, Regional Original Revenue is defined as funds collected by levies in accordance with Regional Regulations (Perda) in accordance with relevant regional laws and regulations. Several sources of revenue in the area contribute to PAD. Since substantial funding is required for regional development, it seeks to generate revenue for the area by means other than depending only on balanced funds from the federal government. For the sake of carrying out regional operations, local governments should investigate the possibility of their areas generating substantial regional earnings. The PAD allows for more regional income generation, which in turn allows for more regional autonomy in spending on routine and local government expenses.

According to (Paat et al., 2019), Regional Original Revenue (PAD) is a source of regional revenue taken from the regions and used as the primary capital of local governments in financing regional activities. In accordance with regional autonomy, local governments have the authority to optimize Regional Original Revenue (PAD), both in increasing PAD income and improving PAD compositions. To accelerate economic growth, local governments position PAD as capital to obtain positive externalization of economic growth (Mintalangi, 2019).

Local government policies should support PAD optimization to improve public services. If the exploitation of PAD is carried out excessively, the influence will burden the community later. According to (Lewis, 2003) He explained that although local governments have the authority to collect levies and taxes, they must consider their central coast.

B. Balancing Fund

Transfer/balance funds are sourced from the State Budget given to each region in the country. Indonesia needs to finance regional needs in the implementation of decentralization. Deep (Paat et al., 2019), according to (Toselong et al., 2016), the equalization fund is divided into several parts, Profit Sharing Fund (PSF), Special Allocation Fund (DAK), and General Allocation Fund (DAU) are the three;

C. Economic Growth

(Amdan & Sanjani, 2023), It states that economic growth is an increase in per capita yield in the long run. This understanding includes three aspects, namely: process, per capita yield, and long-term. An economy that develops and changes over time is a dynamic aspect of economic growth. (Paat et al., 2019) explain through the opinion of Simon Kuznet that the economic growth of a country is an increase in the ability of a country to provide goods for its population caused by the ability and progress of mastery of technology, institutions, and ideological adjustments needed.

D. Poverty

Poverty is a living condition in which many people cannot obtain sufficient resources to meet minimum basic needs (Adnyani & Wiagustini, 2018). Deep (Susanto & Pangesti, 2021) Explained that poverty occurs due to various inequalities, such as inequality in the distribution of subsidies, the amount of natural resources that do not meet the adequacy of human resources, and differences in wage levels.

Poverty theory explains that poverty is an individual problem caused by individual weaknesses that are unable to meet their needs, causing apathy, surrender, lack of effort, and lack of ambition to build the future, resulting in violence and crime (Prakoso et al., 2022) (Amdan & Sanjani, 2023).

As for other views, according to (Sumodiningrat, 1999), explaining that poverty does not only arise due to welfare problems but contains several topics such as vulnerability problems, closing access to job opportunities, mistrust or emotional impotence, spending on poor people's subsidies, increasing dependency ratios, and poverty culture (Arifin, 2020). Poverty alleviation strategies must be improved, and harmful cultural values such as apathy, politics, feeling helpless, and so on must be reduced (Huraerah, 2019).

METHOD

In order to analyze its data, this study used quantitative methods. This study employs panel data covering the districts and cities of West Nusa Tenggara province from 2012 to 2022 on four indicators: Regional Original Income, Balancing Fund, Economic Growth, and Poverty.

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The Central Statistics Agency (BPS) of West Nusa Tenggara Province (NTB) website provides the financial and poverty statistics used in this research. These statistics are based on real data obtained by BPS NTB province. We will use the data to determine how economic development, Regional Original Income (PAD), and the Balancing Fund have affected poverty rates in NTB Province.

A crucial and needed aspect of research is the process of analytical methods. The analysis method itself is a tool used as an intermediary to obtain the desired research data processing results. The desired research output will also be correct on target using the proper analysis method.

A. Panel Data Regression

One kind of regression analysis that uses panel data as its data structure is known as panel data regression analysis. Combining time series data with between data (cross Section), panel data is a powerful tool for data scientists. Two kinds of regression are available in panel data regression: multiple linear panel data regression and basic linear regression. Due to the small sample size of the dependent variable, this research used a straightforward linear analytic approach. This research will make use of the following data.

Table 1: Research Panel Data

No	District/City	Year	Billion (Rp) PAD (X1)	Billion (Rp) DP (X2)	(%) PE (Z)	Thousand Souls Poverty (Y)
1	Lombok Barat	2012	94	656	5.27	112
		2013	130	780	5.26	110
		2014	169	964	5.7	110
		2015	171	1,127	6.39	133
		2016	200	1,255	5.7	110
		2017	290	1,367	6.54	110
		2018	301	1,112	0.57	103
		2019	279	1,329	3.84	105
		2020	216	1,108	-7.03	100
		2021	294	1,287	3.4	105
2	Lombok Timur	2012	87	1,066	7.93	227
		2013	145	1,501	7.85	219
		2014	180	1,244	11.44	219
		2015	189	1,286	12.59	222
		2016	236	1,749	10.23	216
		2017	398	1,799	9.88	215
		2018	261	1,773	7.33	196
		2019	289	1,857	7.84	193
		2020	328	1,614	-1.44	183
		2021	386	2,055	5.17	190
3	Lombok Tengah	2012	110	837	13.72	148
		2013	114	947	6.24	145
		2014	131	994	6.28	145
		2015	154	1,062	5.6	147
		2016	157	1,568	5.65	145
		2017	280	1,657	6.43	142
		2018	194	1,712	3.14	130
		2019	204	1,537	4.04	128
		2020	206	1,463	-6.67	128

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		2021	163	1,712	4.03	132
		2022	324	1,939	3.55	128
		2012	25	341	4.08	74
		2013	45	402	4.11	72
		2014	55	414	4.59	72
		2015	103	469	4.87	72
		2016	134	604	5.22	71
4	Lombok Utara	2017	150	586	6.14	69
		2018	131	603	-0.87	62
		2019	146	729	5.86	64
		2020	103	554	-7.46	60
		2021	61	734	1.38	61
		2022	146	622	3.49	59
		2012	95	544	4.57	50
		2013	139	580	11.28	46
		2014	202	677	14.58	46
		2015	225	757	13.59	46
		2016	288	981	12	44
5	Mataram	2017	386	941	11.63	44
		2018	358	881	8.73	43
		2019	373	895	8.42	43
		2020	363	822	-4.15	42
		2021	392	970	5.5	44
		2022	446	1,051	7.54	45
		2012	71	784	6.67	78
		2013	67	886	6.44	74
		2014	124	846	6.63	74
		2015	136	926	6.42	73
		2016	144	1,124	5.42	71
6	Sumbawa	2017	248	1,243	6.86	69
		2018	145	1,218	4.16	64
		2019	163	1,314	4.86	63
		2020	179	1,113	-4.18	63
		2021	202	1,217	1.87	66
		2022	171	1,255	3.21	64
		2012	34	391	-26.27	21
		2013	41	457	3.53	22
		2014	42	498	-1.31	22
		2015	49	540	107.07	23
		2016	53	998	7.02	22
7	Sumbawa Barat	2017	142	947	-19.41	22
		2018	66	859	-34.57	20
		2019	68	820	-1.15	20
		2020	119	607	28.79	20
		2021	141	799	-0.33	22
		2022	101	915	24.14	21
8	Dompu	2012	26	436	8.54	37

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		2013	27	495	7.38	36
		2014	75	619	12.6	36
		2015	71	885	12.75	36
		2016	84	582	10.23	34
		2017	134	895	10.63	33
		2018	93	931	8.55	30
		2019	105	903	7.4	31
		2020	110	869	-1.39	31
		2021	125	893	3.89	33
		2022	108	1,021	6.63	33
<hr/>						
		2012	43	873	5.95	74
		2013	78	828	5.11	74
		2014	100	893	6.01	74
		2015	108	1,332	6.36	74
		2016	108	1,332	5.3	72
9	Kabupaten Bima	2017	110	1,347	6.27	72
		2018	136	1,348	4.04	72
		2019	135	1,348	4.26	71
		2020	131	1,254	-3.53	71
		2021	140	1,515	1.79	75
		2022	139	1,342	2.83	74
<hr/>						
		2012	14	401	5.6	15
		2013	15	444	5.58	15
		2014	23	467	5.89	15
		2015	30	552	5.75	15
		2016	30	698	5.79	15
10	Kota Bima	2017	53	707	6.65	15
		2018	46	640	4.74	14
		2019	58	653	5.12	14
		2020	47	641	-4.95	14
		2021	46	594	2.08	16
		2022	57	657	2.7	16

Source: NTB Provincial BPS Database

B. Research Framework

Figure 1 provides a description of the research framework, which is evident from the research's title:

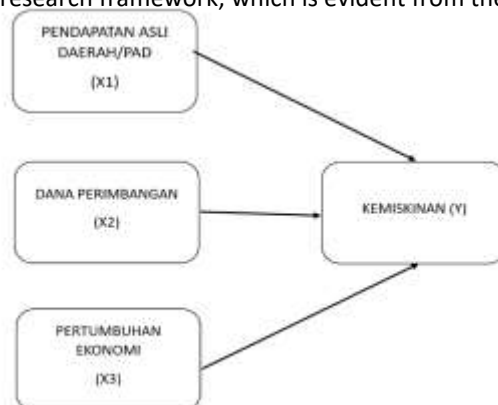


Figure 1: Research Framework

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RESULT AND DISCUSSION

In this study, data on Regional Original Income (PAD), Balancing Fund, Economic Growth, and Poverty Data by District/City in NTB province time series during 2012-2022. This research data was obtained from several sources, such as the Central Statistics Agency (BPS) of NTB Province, Bappeda of NTB Province, and Bappeda of NTB Province (West et al., 2022).

A. Normality Test

A measure for data normality is required prior to performing a regression analysis. Assessing whether the data utilized in the study follows a normal distribution is the purpose of the normality test. (Pratiwi, 2021) Ascertain whether or not residual regression data follows a normal distribution by utilizing the declared normality test. (Situmorang et al., 2018) Declares that the probability of discovering that a variable follows a normal distribution is greater than 0.05. The subsequent outcomes present the results of the logarithmic test for normality of panel data conducted with the Wilk test and Stata Version 17.

Table 2: Panel Data Normality Test

```
. swilk padx1 dpx2 pex3 kemiskinany, lnnormal
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Shapiro-Wilk W test for 3-parameter lognormal data

Variable	Obs	W	V	z	Prob>z
padx1	110	0.91313	7.768	-1.446	0.92594
dpx2	110	0.95593	3.941	-1.451	0.92665
pex3	110	0.52255	42.696	-0.856	0.80405
kemiskinany	110	0.87603	11.086	-1.432	0.92394

Source: Stata Ver. 17 Data Processing

Based on the results of the normality test above, the results of all variables are PAD (X1) of 0.92594, Balancing Fund (X2) of 0.92665, Economic Growth (X3) of 0.80405, and poverty (Y) of 0.92394. Since all probability variables are > 0.05, all variables are normally distributed.

B. Multicollinearity Test

The purpose of the collinearity test is to ascertain whether variables are highly or perfectly correlated. A multicollinearity test does not apply to a variable when Vif is <10 (Nandita et al., 2019). Presented below are the outcomes of the panel data multicollinearity test.

Table 3: Panel Data Multicollinearity Test

```
. vif
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Variable	VIF	1/VIF
dpx2	1.66	0.603015
padx1	1.65	0.604919
pex3	1.00	0.995777
Mean VIF	1.44	

Source: Stata Ver. 17 Data Processing

Based on the results of the multicollinearity test above, the result is 1.44<10, meaning that the variable is considered free from the multicollinearity test.

C. Heteroscedasticity Test

The heteroscedasticity test is a test to see the condition of a regression model and whether the error variance is constant. In this assumption, the error value or the difference from the variable's value will be tested to determine whether it has a constant value. If the prob value > 0.05, the variable passes the heteroscedasticity test (Satyahadewi et al., 2023). The following are the results of the heteroscedasticity test from the panel data.

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Table 4: Heteroscedasticity Test

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. . estat hettest

Breusch-Pagan/Cook-Weisberg test for heteroskedasticity
Assumption: Normal error terms
Variable: Fitted values of kemiskinanany

H0: Constant variance

      chi2(1) =    2.68
Prob > chi2 = 0.1015
```

Source: Stata Ver. 17 Data Processing

Based on the above results, prob>chi = 0.1015. That is, the probability is 0.1015. Because the probability is > 0.05, the data is accessible from heteroscedasticity tests.

D. Best Model Selection Test

The Lagrange Multiplier (LM) Test, the Chow Test, and the Hausman Test are the three methods for determining the optimal model selection test. In order to determine the optimal model for regressing panel data among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), the aforementioned three techniques are implemented.

I. Test Chow

Utilizing the Common Effect Model (CEM) and the Fixed Effect Model (FEM), the Chow test is a statistical comparison between the two models. Twenty-four (Winantisan et al., 2024) Common Effect Model (CEM) application occurs when the p-value is greater than 0.05. Conversely, in the case where the p-value is less than 0.05, the Fixed Effect Model (FEM) is employed. In this chow test, the hypothesis is that H0 employs the Common Effect Model (CEM) while H1 utilizes the Fixed Effect Model (FEM). The outcomes of the panel data chow test are as follows.

Table 5: Chow Test

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. *uji Chow (CEM VS FEM)

.
. regres kemiskinanany padx1 dpx2 pex3 i.id
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Source	SS	df	MS	Number of obs	=	110
Model	348047.423	12	29003.9519	F(12, 97)	=	874.05
Residual	3218.7955	97	33.1834587	Prob > F	=	0.0000
				R-squared	=	0.9908
				Adj R-squared	=	0.9897
Total	351266.218	109	3222.62585	Root MSE	=	5.7605

Source: Stata Ver. 17 Data Processing

Based on the findings presented in the state ver.17 data, it is evident that the probability values for all variables are less than 0.05 (0.0000 < 0.05). This indicates that the Fixed Effect Model (FEM) is the most appropriate model, rejecting H0 and accepting H1.

II. Hausman Test

The purpose of the Hausman test is to determine which of the Random Effect Model (REM) and the Fixed Effect Model (FEM) is superior. As per the findings of Rahmadeni (2019), the Random Effect Model (REM) is the model that is chosen when the p-value < 0.05. When the p-value is less than 0.05, however, the Fixed Effect Model (FEM) is applied. Given that a suitable model has been identified between CEM and FEM using the aforementioned Chow Test, with FEM being determined to be the superior model, the Hausman test will be employed to determine whether REM or FEM is the superior model for panel data processing.

If REM is the best model, it will proceed to the third test, the Langgerage Multiplier (LM) test, to determine the best between CEM and REM. However, if FEM is the best model choice, then the Langgerage Multiplier (LM) test is not needed. The hypothesis of this hausman test is H0 for FEM test and H1 for REM test. Here are the results of the Hausman test.

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Table 6: Hausman Test

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. estimates store REM

. xtreg kemiskinan padx1 dpx2 pex3, re sa

Random-effects GLS regression           Number of obs   =       110
Group variable: id                     Number of groups =        10

R-squared:                               Obs per group:
    Within = 0.3409                      min =           11
    Between = 0.7419                     avg =           11.0
    Overall = 0.4062                     max =           11

corr(u_i, X) = 0 (assumed)              Wald chi2(3)    =       35.10
                                         Prob > chi2     =       0.0000

Source: Stata Ver. 17 Data Processing
    
```

Based on the results of the Hausman test above, it is seen that the prob result < 0.05 , which is $0.000 < 0.05$, meaning that the best model to be used in this panel data is FEM, which means H_0 is accepted, and H_1 is rejected. This is in line with the results of the model test from (Satyahadewi et al., 2023), which gets a result of $0.0000 < 0.05$ and uses FEM as its best model. With FEM as the best model, there is no need for Langgerage Multiplier (LM) Test.

E. Panel Data Regression Analysis

Panel data regression analysis combines data from time series and cross-section data. This study uses panel data from local original income (PAD), balancing funds, and economic growth as independent variables. At the same time, poverty is the dependent variable, using cross data from districts/cities in NTB Province in the 2012-2022 time frame. For this study panel's regression data, the Fixed Effect Model (FEM) was determined to be the best model to apply based on the outcomes of the best model selection test. Here is the structural equation expressed using the Fixed Effect Model (FEM) method:

$$Y = (\alpha + u_i) + X_i\beta + v_{it}$$

Known:

Y: Dependent variable

X: Independent Variable

α : Beta Coefficient of the Constant (intercept)

β : beta coefficient of the independent variable

U: Data panel

V: Vector

Some hypotheses that will be generated in the following panel data regression include:

- I. Local Original Income (PAD) (X1) affects Poverty (Y)
- II. Equalization Fund (X2) affects Poverty (Y)
- III. Economic Growth (X3) affects Poverty (Y).

The following is the result of the Analysis of the Panel data Test.

Table 7: Panel Data Regression

Panel	Coefficient value	P-Values	Information
PAD -> Poverty	-0.0296896	0.024	significant
Balancing Fund -> Poverty	-0.010088	0.007	significant
Economic growth -> Poverty	0.526619	0.255	insignificant

Source: Stata ver. 17

Based on the results above, the following hypothesis is obtained:

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- I. PAD (X1) has a negative effect with P-values of $0.024 < 0.05$, a significant effect
- II. The Balancing Fund (X2) has a negative effect with P-values of $0.007 < 0.05$, having a significant effect
- III. Economic growth (X3) has a positive effect of $0.255 > 0.05$, not significant

According to the regression findings shown above, PAD (local original income) significantly contributes to poverty reduction in the province of West Nusa Tenggara. There is a negative coefficient and a significant relationship between local original income and poverty, as seen in the panel data regression findings. The correlation coefficient is 0.024, which is less than the significance level of 0.05. Clearly, PAD (local original income) has a substantial impact on lowering poverty rates in NTB province. According to Rahmadeni (2019), local native income significantly and negatively affects poverty in East Java.

The following result is the balanced Fund, which significantly influences poverty, which is $0.007 < 0.05$ with a negative coefficient. This shows that the Balancing Fund significantly impacts reducing poverty rates in NTB province. This result rejects the statement (Paat et al., 2019), which states that the value of local original income is positive for poverty and does not have a linear effect on poverty in Bitung.

The following result is that economic growth has an insignificant influence on poverty, which is $0.255 > 0.05$ with a positive coefficient. It can be assumed that economic growth does not reduce poverty but increases poverty, even if it is not significant. These results support the statement of (Damaang and Halim, 2019), which states that economic growth is positive for poverty but not significant in the Mamuju district. This can happen because economic growth in NTB province fluctuates. In addition, increasing population also affects economic growth and increases poverty. Based on the panel data above, economic growth can decrease. Although data still increases and decreases, the increase in economic growth needs to be compared with the y-o-y (Year on year).

CONCLUSIONS

Every region and province of NTB needs local original income, balancing funds, and economic growth. In this study, each influences the poverty rate, which is still a national development problem. Local original income significantly influences reducing the poverty rate in NTB province, as well as the balancing fund, which contributes significantly to the reduction in the poverty rate. However, economic growth impacts increasing the poverty rate in NTB, although not significantly.

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